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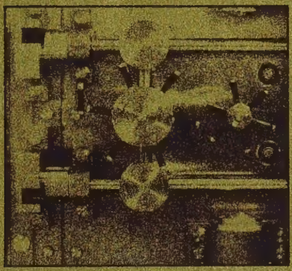
Fidelity Trust
Annual Report 1980



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Officers

Brendan R. Calder	– President and Chief Executive Officer
Colin S. Dell, C.A.	– Executive Vice President, Finance
Ivan S. Wahl, M.B.A.	– Executive Vice President, Mortgages
Edward L. Finch, M.T.C.I.	– Vice President, Administration
Robert H. Lindsay	– Vice President & Secretary
James P. McAvoy	– Vice President, Commercial Mortgage Division
James E. Perkins	– Senior Counsel
Douglas J. Skinner, M.T.C.I.	– Assistant Vice President, Manitoba
Carl B. Ramalho, C.G.A.	– Controller
William G. Haggart, C.G.A.	– Group Controller
Maryann Vanek, M.T.C.I.	– Assistant Treasurer
Dennis E. Gale, C.A.	– Manager Internal Audit

Directors

Standing Left to Right:

Richard W. Smith
- Director of Fidelity Trust and Fidelity Trustco
- President of Smith Agencies Ltd.

Robert A. Wisener
- Director of Fidelity Trust, and Patrician Land.
- Chairman of The MerBanco Group

Douglas H. Fullerton
- Director of Fidelity Trust, and Patrician Land
- Corporate Director & Author

S. Simon Reisman
- Director of Fidelity Trust,
- Corporate Director and Chairman of the Board, Reisman and Grandy Ltd.

Harry L. Knutson
- Director of Fidelity Trust, Fidelity Trustco & Patrician Land.
- President of Pocklington Financial Corp. Ltd.
- President of Patrician Land

Brendan Calder
- Director of Fidelity Trust, Fidelity Trustco and Patrician Land.
- President & Chief Executive Officer of Fidelity Trust

Seated Left to Right:

Marvin S. Arnold, Q.C.
- Director of Fidelity Trust, Fidelity Trustco and Patrician Land
- a senior partner of Rose, Persiko, Arnold, Gleiberman

C. Douglas Horrey
- Director of Fidelity Trust, Fidelity Trustco and Patrician Land.
- Executive Vice President Finance of Pocklington Financial Corp. Ltd.

Allan C. Rose, Q.C.
- Chairman of the Board of Fidelity Trust
- Director of Fidelity Trustco and Patrician Land
- a senior partner of Rose, Persiko, Arnold, Gleiberman

G. J. van den Berg
- Director of Fidelity Trust and Patrician Land.
- Corporate Director

Robert H. Lindsay
- Director of Fidelity Trust
- Vice President & Secretary of Fidelity Trust
- Assistant Secretary of Fidelity Trustco.

Absent:

Peter Pocklington
- Chairman of Pocklington Financial Corp. Ltd., Fidelity Trustco and Patrician Land

John O. McCutcheon
- Director of Fidelity Trustco
- Chairman of the Board of Carlyle Petroleum Ltd.

B. J. Seaman
- Director of Fidelity Trust
- Vice Chairman of Bow Valley Industries Ltd.

W. Nevil Thomas
- Director of Fidelity Trustco
- Chairman of the Board of Plumbing Mart

N. C. W. Wood
- Director of Fidelity Trustco
- President of Camwood Securities Corporation Ltd.

President's Report

Overview

As anticipated, Fidelity Trust and its subsidiary companies lost money in 1980 although revenues and assets under administration continued to grow. The loss, totalling $7,171,000 was primarily due to interest rates which hit record highs twice during the year.

Nonetheless, we rigourously adhered to plans set early in the year to deal with the basic structural problems preventing Fidelity from attaining its potential profit levels. Management was not diverted into a search for short-term solutions nor were our restructuring efforts tempered by our earnings performance. The company's new owner provided the financial security necessary to pursue our objectives.

Our task as management remains the same: the complete restructuring of Fidelity Trust along lines which will ensure profitability, as quickly as possible. Much of the necessary work was accomplished in 1980 and we therefore expect a profitable 1981, starting with our first quarter.

Restructuring Ownership

Transactions were completed in the latter part of 1979 and 1980 which considerably strengthened Fidelity's financial base and changed its ownership.

The first step occurred on December 21, 1979 when Fidelity Trustco Limited, a wholly-owned subsidiary of Pocklington Financial Corp. Ltd., acquired approximately 64 percent of the issued and outstanding common shares of Fidelity Trust. At that time, deposit liabilities of both Fidelity Trust and Fort Garry were in excess of limits under applicable legislation and no further expansion of borrowings from the public would have been permissible. This posed a serious limitation on company operations and to redress this situation, Pocklington Financial undertook to sell one of its subsidiaries – Patrician Land Corp. Limited – to Fidelity Trust for shares and cash.

The acquisition of Patrician added real estate holdings independently valued at more than $99 million with a net worth of $10.8 million, not including a parcel of real estate valued separately at $7.5 million. These assets were transferred to Fidelity effective February 15, 1980 in exchange for 1,654,923 of Fidelity's treasury common shares and $7.5 million in cash. This transaction contributed in excess of $23 million to Fidelity's borrowing base for future growth.

During this time, significant changes were also made to Fidelity's Board and senior management as reported in the 1979 annual report.

The next step was to offer minority common shareholders of Fidelity Trust the same terms as those offered for majority control in December. A formal offer was mailed to shareholders on April 29, 1980. This offer was subsequently extended and finally expired on May 30, 1980. More than 99 percent of the minority shares were acquired by Fidelity Trustco.

The final step in restructuring ownership was to amalgamate Fidelity Trust with Fort Garry. Approval was obtained at a special shareholder meeting on October 30, 1980 and the companies were subsequently amalgamated effective December 31, 1980.

Restructuring Branch Operations

One of our main priorities in 1980 was to integrate Fidelity Trust with Fort Garry Trust Company. Fort Garry had been acquired by Fidelity effective July 1, 1979 and operations of the two organizations overlapped considerably. Forthright action largely resolved this problem by year end.

The first step was the merger of Fidelity Trust and Fort Garry corporate offices. Subsequently, we closed Fort Garry mortgages offices in Vancouver, Calgary, Edmonton, Toronto and Halifax. Fidelity mortgage offices were eliminated in Regina and Hamilton. Very little business was lost as a result of these moves.

Savings branches were closed in Richmond, Calgary and Halifax. We maintained our competitive position in these markets by reassigning accounts to other branches.

Fort Garry's Montreal location was sold at a small profit and its mortgage operation was relocated.

All told, staff was reduced from 350 to 245 with almost no loss in business volume. Productivity improved substantially.

We believe that we now have a rational and cost effective branch network capable of optimizing business volume per dollar invested. No further rationalization is expected in 1981.

New Regional Office Opening

Left to Right:
Peter Pocklington: Chairman of the Board, Fidelity Trustco Limited
Pearl McGonigal: Deputy Mayor of Winnipeg
Douglas J. Skinner: Assistant Vice President, Manitoba
Brendan Calder: President & Chief Executive Officer

Eliminating Problems

The policies and administrative systems in place at Fidelity and Fort Garry prior to the late 1979 change in ownership created a backlog of problems requiring immediate attention. A considerable amount of management time was devoted to the resolution of these problems in 1980.

Our first concern was to extricate the company from several loans of dubious value originally made by Fort Garry. Aggressive action was necessary. For example, we were carrying an unproductive $8 million investment in property in St. Albert, near Edmonton. We invested a further $7 million to develop a 284 suite apartment building on this site. This project was then syndicated to 45 investors. Fidelity recaptured its entire investment, obtained syndication fees and a mortgage on the completed project at full market rates and with an excellent covenant.

Sturgeon Point Apartments
284 Rental Apartments
St. Albert, Alberta
Construction completed 1980.

Another case involved 306 acres in Chandler, near Phoenix, Arizona. We held a $4 million mortgage on this raw land on which the owner of the land defaulted. Fidelity foreclosed on the property and bought out other interests at a further cost of $2 million. Subsequently, we sold the land to a large corporation under terms providing a sizeable downpayment, a takeback mortgage at market rates and a servicing loan to begin development work.

These two examples are representative of a number of investments which were judged to be either unproductive or inappropriate for Fidelity. Most of these assets were disposed of in 1980 including sale of $1.6 million in oil and gas properties.

A second area of concern was residential mortgage defaults. Fidelity Trust had placed considerable reliance on NHA guarantees for loans having below average strength of covenant. Our late payment and default statistics exceeded industry averages and the process for dealing with these problems was slow and cumbersome. New people and new procedures were put in place during 1980. By year end, arrears were down substantially and the backlog of defaults was much reduced. Further improvement is expected in 1981.

A third concern – noted in last year's annual report – was mismatching of assets and liabilities. Operating results for 1980 reflected our vulnerability to short-term interest rate movements resulting from the fact that assets with fixed terms and rates had been financed by liabilities with shorter terms and variable rates. Significant steps were taken in 1980 to make our earnings less sensitive to interest rates. The most important was the sale by our mortgage banking operation of $51 million in fixed-rate, low yielding mortgages. The proceeds were used to reduce our short-term, interest-sensitive liabilities. Although this transaction incurred a loss of $1,558,000 the overall effect was a substantial reduction in our vulnerability to interest rate fluctuations.

We believe that our shareholders and depositors will be best protected by a policy of almost perfect matching. To this end, a model has been developed of the ideal mix of assets and liabilities by classification. During 1981, this model calls for further reductions in long-term, fixed-rate assets; an increase in short-term assets; and a substantial growth in our portfolio of floating rate assets.

New Initiatives

As noted in last year's annual report, the traditional business of a trust company is out of step with the environment of the 80s. Long-term, fixed-rate assets and liabilities are quietly disappearing from the scene due to the pressures of inflation and the unpredictability of interest rates. Furthermore, the new Bank Act promises increased competition while a leveling out in the rate of household formation means a gradual decline in residential mortgage underwriting in the second half of this decade. Meanwhile, changing attitudes among employees and the growing application of computers to financial management point to the need for new management methods in an industry which has been characterized by tradition, large clerical workforces and growing turnover.

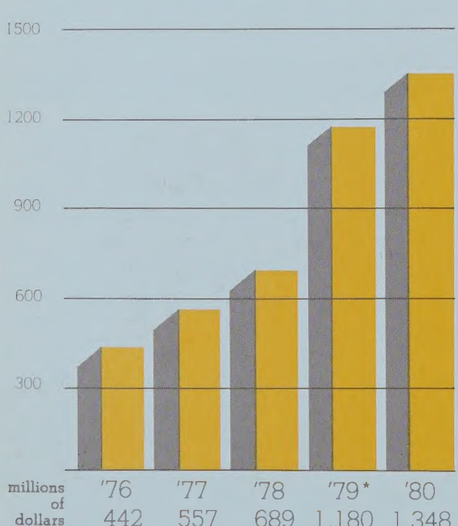
In the face of these challenges, Fidelity has considerable strengths. With consolidated assets under administration of $1,348 million, we are the 12th largest trust company in the country. We have over 78,000 depositers and over 25,000 mortgages and we have built up a base of more than 2,600 small and large clients for our mortgage banking services. Our branch network is oriented to the growing western Canadian market and the company has attracted talented people capable of assuming wider responsibilities. These are strengths worth preserving and building upon.

Last year, our management team assessed operations, analyzed long-range prospects for the industry and established a business plan for Fidelity Trust designed to change the nature of our operations to reflect the environment of the 80s. Here is a report on our progress to date in four main areas:

• Organization Effectiveness: Traditionally, trust companies have measured performance in terms of asset growth, revenues and earnings per share. Our three criteria for effectiveness are return on capital employed, the ratio of operating expenses to total assets under administration and goal achievement by operating units.

During 1980, we especially focused on our operating expense ratio. At the beginning of the year, trust operations expenses were 83 basis points (0.83 per cent) of total assets under administration. By year end, the ratio was 77 basis points. Actions already taken should reduce operating expenses to $9.3 million in 1981 from $10.5 million the year before, despite inflation and a salary program which resulted in substantial increases to achieve parity with industry pay levels.

Total Assets
under Administration
(*Fidelity & Fort Garry Consolidated)



A complete organization effectiveness program was instituted in 1981 beginning with an organization health survey which gathered comments from staff on more than one hundred areas of concern. Teams were established, work roles were clarified and overlaps or gaps eliminated. Specific objectives were set for each manager and his team for 1981.

• Mortgage Underwriting: As noted in last year's report, we intend to de-emphasize NHA residential mortgages and increase our participation in commercial mortgage lending. Commercial mortgages have lower administrative costs per dollar loaned (because of their larger size) and better spreads than residential mortgages.

Significant progress was made in this direction in 1980. The most important step was creation of a Commercial Mortgage Division under experienced management recruited for the task, with an initial portfolio of $100 million obtained by shifting large loans from our branches to one central location.

We plan an aggresive expansion of this new Division in 1981. About half of our commitments will be interim financing with terms of one year or less. Rates for these loans generally track the cost of money more accurately than fixed rate mortgages and spreads are also better. The other half of our commitments will consist of three to five year loans on new, completed commercial projects, to provide stability.

More emphasis will also be placed on Mortgage Centre in 1981. Acquired in early 1980, this program involves the franchising of mortgage brokers to generate high quality conventional residential loans. The program will be extended to British Columbia and Alberta over the next year and volume is expected to grow rapidly.

• Mortgage Banking: Fidelity provides mortgage banking services to large institutional and individual clients in Canada and Europe. During 1980, we completed a thorough assessment of administrative procedures, and met with clients to identify improvements. Increasing our level of service will be a top priority for Fidelity in 1981.

• New Products and Services: Several new products were introduced in 1980 including a Guaranteed Deferred Profit Sharing Plan and a variable rate Retirement Savings Plan. Several unprofitable services were dropped, among them stock transfer and self-administered RRSPs.

During 1981, product development work will focus on two areas: interest-sensitive deposit instruments with tax-planning advantages; and mortgages offering increased flexibility to the borrower.

Outlook

The outlook for Fidelity in 1981 is much improved. If interest rates stay at current levels or decline, we expect to close the year with a profit from our trust company operations.

Patrician Land will make a sizeable additional contribution to income when transactions now in the initial stages are completed successfully. Patrician's earnings potential in 1980 was largely unrealized due to reorganization (described on page 8) and the fact that only one of four planned transactions was completed by year end.

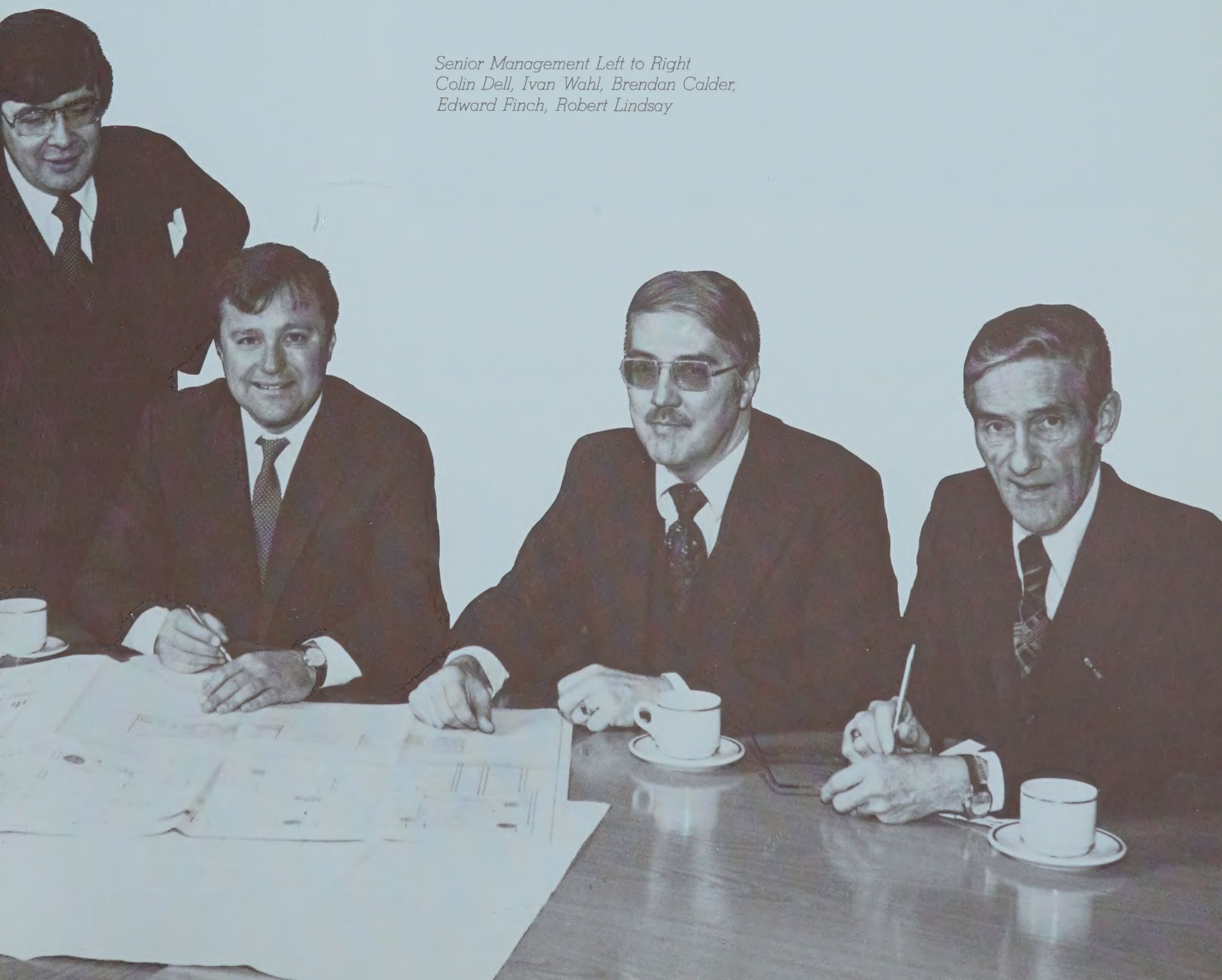
Now that restructuring of ownership and operations has been completed, management resources will be freed to improve service, increase efficiency and develop new profit-generating opportunities. Key objectives include further reductions in mortgage arrears and non-productive assets; better matching of assets and liabilities; and improved administration of our mortgage banking operations. We will also test new ways of generating interest-sensitive assets including commercial term lending and interim financing.

The tough but necessary decisions have been made and we believe the worst is now behind us. A new direction has been established for the company and the results should become apparent in the months ahead.

I would like to extend my appreciation to all employees for their efforts and look forward to their continued support and enthusiasm.

Brendan Calder

Brendan Calder
President

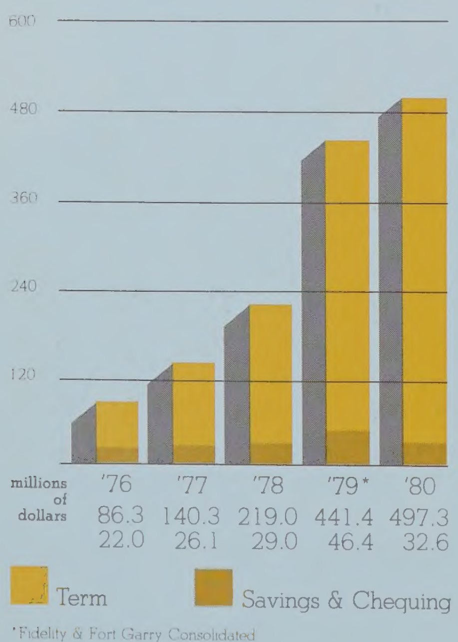


Senior Management Left to Right
Colin Dell, Ivan Wahl, Brendan Calder, Edward Finch, Robert Lindsay

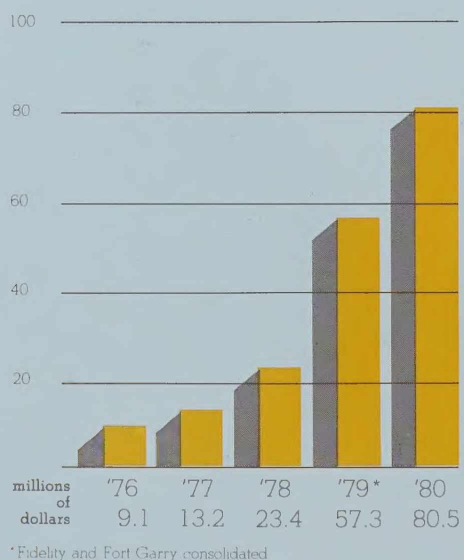
Branch Services

New Regional Office in Winnipeg

Deposits



RRSP'S



Fidelity Trust's branch operations were consolidated in 1980 but business volume increased. Total deposits grew 8.6 percent to $530 million during the year. The most rapid expansion was in tax programs: RRSP liabilities increased 40.5 percent to $80.5 million in 1980.

Fidelity Trust operates 15 branches located in all major urban centres throughout Western Canada, Ontario, Quebec and the Maritimes. During 1980, we embarked on a program of upgrading the quality of our branches. Major renovations should be completed by the end of 1981. In addition, careful examination of our services resulted in the introduction of a Guaranteed Deferred Profit Sharing Plan and Variable Rate Retirement Savings Plan. These two new products reflect our desire to meet the needs of a new group of savers who demand tax sheltered products.

We have also expanded our agency network in all regions in order to market our comprehensive savings and lending programs. The agency network, through its sales outlets, not only provides us with access to all the markets we serve, but offers the additional benefit of lower overhead and transaction cost compared to an extension of our branch network.

Mortgage Services

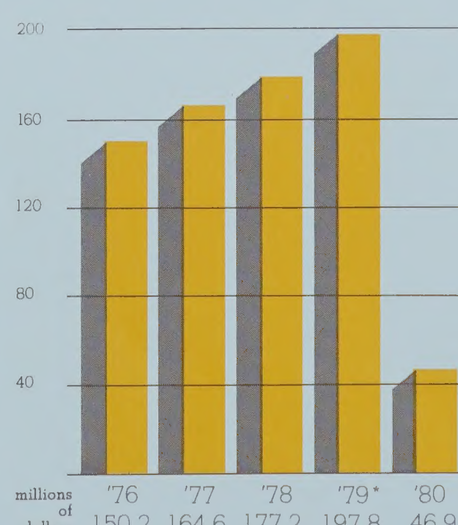
Fidelity Trust's mortgage operations enjoyed moderate success in 1980. Total mortgages under administration decreased slightly by 1 percent to $1.02 billion. Approximately 77 percent of Fidelity's own assets were in mortgages at year end, compared to 86 percent one year previously. Underwriting is conducted at 9 offices across Canada.

Fidelity has a large Mortgage Banking Division which originates, underwrites and sells mortgages to a growing number of Canadian and foreign investors. Sales in 1980 totalled $61 million, down 40 percent from 1979. Fidelity retains administration of these investments and by year end, a total of $549 million in mortgages was being managed on behalf of Fidelity clients. All of these loans were residential and most were guaranteed by the Government of Canada under the National Housing Act. The resulting security of these loans, and their geographical diversification, are attractive to financial institutions as well as individuals.

Mortgage Banking clients are provided stability of cash flow by our Assured Payment Plan which regularizes their monthly income regardless of the date on which the borrower makes his payment.

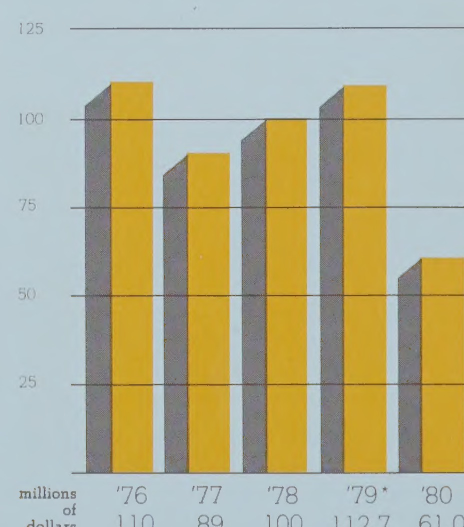
"Hill Park"
36,000 square feet of office space
Calgary, Alberta
Construction completed 1980.
This project is financed by Fidelity Trust.

Mortgage Fundings



*Fidelity & Fort Garry Consolidated

Mortgage Sales



*Fidelity and Fort Garry consolidated

Patrician Land Corp. Ltd.

Patrician Land Corp. Ltd. the wholly owned real estate subsidiary of The Fidelity Trust Company moved rapidly during 1980 to complete the transition from a real estate "trading" company to a full service real estate development, operating and management company. A team of key operating personnel was assembled and a thorough analysis was performed on the entire real estate portfolio. Each property was earmarked for either development or sale. Development programs were initiated for each of the properties intended for "keeping" and sales programs were commenced on properties in the portfolio more than three to five years from development.

Early in 1981, Patrician took a major step to enter the commercial development field by acquiring positions in 11 shopping centres to be built from 1981 to 1983.

In spite of record high interest rates and uncertainty over energy price negotiations between Alberta and Ottawa, 1981 promises to be a year of challenge and opportunity for Patrician in Western Canada. Patrician should generate important profit contributions to Fidelity as a result of the year's operation.

Left to Right:
David Warren – Vice President, Finance
Harry L. Knutson – President
C. Douglas Horrey – Director

Residence Eight Hundred

164 luxury condominiums near downtown Calgary.
This project being developed with our affiliate Patrician Developments Ltd.

Five Year Record

Highlights	1980†	*1979(1)	1978	1977	1976
Gross Revenue	**$ 65,372,000**	$ 43,479,000	$ 25,653,000	$ 18,126,000	$ 13,971,000
Interest Expense	**60,472,000**	37,750,000	17,448,000	10,931,000	8,093,000
Other Operating Expenses	**12,879,000**	8,145,000	5,480,000	4,386,000	3,288,000
Earnings (Loss) From Operations Before Income Tax and Minority Interest	**(7,979,000)**	(2,416,000)	2,725,000	2,809,000	2,590,000
Income Taxes Payable (Recovery)	**(1,078,000)**	(580,000)	1,348,000	1,390,000	1,280,000
Net Earnings (Loss)	**(7,171,000)**	(1,971,000)	1,408,000	1,463,000	1,245,000
Net Earnings (Loss) Available to Common Shareholders	**(7,671,000)**	(2,400,000)	978,000	1,294,000	1,245,000
Total Assets under Administration	**1,348,314,000**	1,182,787,000	689,347,000	556,616,000	441,980,000
Deposits	**529,984,000**	487,821,000	248,046,000	166,336,000	108,251,000
Mortgages and Loans	**477,881,000**	448,383,000	232,702,000	154,572,000	90,433,000
Shareholders' Equity	**16,783,000**	10,827,000	13,432,000	12,500,000	6,427,000
COMMON SHARES OUTSTANDING					
Fully Paid	**3,972,470**	2,317,207	1,715,665	1,615,002	1,598,334
Partially Paid	–	–	601,542	702,205	718,873
Total	**3,972,470**	2,317,207	2,317,207	2,317,207	2,317,207
Number of Shareholders (Common and Preferred)	**1,030**	559	1,202	1,165	482
PER COMMON SHARE					
Net Earnings (Loss)	**$(2.04)**	$(1.04)	$0.45	$0.62	$0.64
Dividends Paid (Common)	–	0.15	0.19	0.14	0.12

Patrician Land Corp. Ltd. (2)

Properties Held for Resale	$107,384,000
Rental Properties	24,904,000
Mortgages & Agreements for Sale	32,939,000
Liabilities on Properties Held for Resale	77,580,000
Liabilities on Rental Properties	15,396,000
Liabilities on Mortgages & Agreements for Sale	18,412,000
Gross Revenue	21,653,000
Costs Attributable to Above	13,812,000
Interest Expense	4,871,000
Other Operating Expenses	2,720,000
Net Loss	172,000

*Includes consolidation of Fort Garry Trust
†Includes consolidation of Patrician Land Corp. Ltd.
(1)Restated to comply with 1980 presentation
(2)Operations for 10½ months

Consolidated Balance Sheet

As at December 31, 1980
(with comparative figures for 1979)

Assets	1980	1979
INVESTMENTS:		
Cash and short-term investments	$ 24,251,000	$ 19,645,000
Investment securities (note 4)	26,655,000	28,973,000
Mortgages and agreements for sale including accrued interest (note 5)	476,448,000	446,976,000
Collateral loans	1,433,000	1,407,000
Income taxes recoverable	1,222,000	1,784,000
Other receivables	4,073,000	3,406,000
	534,082,000	502,191,000
REAL ESTATE: (note 7)		
Held for resale	125,534,000	2,958,000
Held for the production of income	32,405,000	6,571,000
	157,939,000	9,529,000
OTHER ASSETS:		
Premises, equipment and leasehold improvements (note 8)	1,652,000	2,151,000
Sundry investments and other assets	7,356,000	329,000
	9,008,000	2,480,000
GOODWILL:	4,357,000	3,337,000
	$705,386,000	$517,537,000

Liabilities		
DEPOSITS:		
Demand	$ 88,713,000	$139,624,000
Registered plans	100,701,000	66,909,000
Guaranteed term	340,570,000	281,288,000
	529,984,000	487,821,000
OTHER LIABILITIES:		
Bank indebtedness	5,037,000	1,800,000
Accounts payable and accrued liabilities	4,303,000	2,301,000
Mortgages payable (note 9)	131,400,000	7,237,000
	140,740,000	11,338,000
DEFERRED INCOME TAXES (notes 3 & 11)	16,879,000	1,118,000
SUBORDINATED NOTES (note 10)	1,000,000	3,500,000
MINORITY INTEREST	-	2,933,000
	688,603,000	506,710,000
Shareholders' Equity		
CAPITAL STOCK: (note 12)		
AUTHORIZED –		
1,000,000 first preference shares with a par value of $20 each, issuable in series		
5,000,000 common shares with a par value of $1 each		
ISSUED –		
398,850 9% cumulative redeemable first preference shares Series A (1979 – 249,100 shares at 8.6%)	7,977,000	4,982,000
3,972,470 common shares (1979 – 2,317,207 shares)	3,972,000	2,317,000
Contributed surplus	10,355,000	1,253,000
	22,304,000	8,552,000
Retained earnings (deficit)	(5,521,000)	2,275,000
	16,783,000	10,827,000
	$705,386,000	$517,537,000

approved by the Board
Allan C. Rose – Chairman & Director
Brendan Calder – President & Director

Consolidated Statement of Earnings

Year ended December 31, 1980
(with comparative figures for 1979)

	1980	1979
REVENUE:		
Income from mortgages	$51,613,000	$37,950,000
Income from securities and short-term investments	7,238,000	4,535,000
Other operating income	2,236,000	2,302,000
Gain (loss) on investments and real estate (note 13)	4,285,000	(1,308,000)
	65,372,000	43,479,000
EXPENSES:		
Interest	60,472,000	37,750,000
Salaries and staff benefits	5,253,000	4,382,000
Other operating expenses	7,626,000	3,763,000
	73,351,000	45,895,000
Loss from operations before the following items	7,979,000	2,416,000
Income taxes	(1,078,000)	(580,000)
Minority interest	270,000	135,000
Loss	$ 7,171,000	$ 1,971,000
Loss per common share (note 14)	$2.04	$1.04

Consolidated Statement of Retained Earnings (Deficit)

Year ended December 31, 1980
(with comparative figures for 1979)

	1980	1979
Balance, beginning of year	$ 2,275,000	$5,022,000
Adjustments on issue through exchange of preference shares (note 12 (a))	(125,000)	–
Loss for the year	(7,171,000)	(1,971,000)
	(5,021,000)	3,051,000
Dividends paid:		
8.6% preference shares	500,000	429,000
Common shares (1979 – $0.15 per share)	–	347,000
	500,000	776,000
Balance, end of year	$(5,521,000)	$2,275,000

Consolidated Statement of Changes in Financial Position

Year ended December 31, 1980
(with comparative figures for 1979)

	1980	1979
Funds provided from:		
Increase in deposits	$42,163,000	$76,605,000
Increase in mortgages payable	21,941,000	7,237,000
Increase in bank indebtedness	-	(3,045,000)
Issue of common shares to acquire Patrician Land Corp. Ltd.	10,757,000	-
Issue of preference shares (net) to acquire minority interest	2,870,000	-
Proceeds from subordinated notes	(2,500,000)	2,500,000
Proceeds on calls on common shares	-	150,000
Total provided	75,231,000	83,447,000
Funds applied to:		
Operations –		
Loss	7,171,000	1,971,000
Deferred income taxes	1,078,000	(435,000)
Minority interest	(270,000)	(135,000)
Depreciation and amortization	(542,000)	(387,000)
	7,437,000	1,014,000
Acquisition of Patrician Land Corp. Ltd. (note 3)	10,757,000	-
Acquisition of Fort Garry Trust Company	-	7,858,000
Increase in mortgage receivable and agreement for sale	(8,257,000)	64,878,000
Increase in investment in real estate	49,110,000	968,000
Increase in investment securities	(2,318,000)	4,497,000
Purchase of minority interest	2,873,000	-
Redemption of 8.6% preference shares	-	8,000
Dividends paid to minority interest	270,000	135,000
Dividends paid on – 8.6% preference shares	500,000	429,000
– common shares	-	347,000
Net change in other assets & liabilities	10,253,000	4,728,000
Total applied	70,625,000	84,862,000
Increase (decrease) in cash and short-term investments	$ 4,606,000	$ (1,415,000)

Notes to Consolidated Financial Statements

December 31, 1980

1. Amalgamation:

   The Company was formed effective December 31, 1980 under provisions of the Trust Companies Act (Canada), by the amalgamation of The Fidelity Trust Company and its subsidiary, Fort Garry Trust Company which had been acquired effective July 1, 1979.

2. Summary of significant accounting policies:

   The following is a summary of significant accounting policies followed by the Company:

   (a) Consolidation –

   The consolidated financial statements include the accounts of the Company and its subsidiaries including Patrician Land Corp. Ltd. acquired during 1980. The 1979 operating results included Fort Garry Trust Company for six months. (See note 1.)

   (b) Investment securities and mortgages –

   Bonds are stated at amortized cost plus accrued interest. Discounts or premiums on the purchase of bonds are deferred and amortized to income over the remaining life of the bonds. Stocks are carried at cost. Mortgages are stated at cost, which includes amounts advanced plus accrued interest less principal repayments and provisions for known and anticipated losses. Repurchased mortgages are stated at cost and the discounts or premiums on the repurchase are deferred and amortized to income over the remaining term of the mortgages.

   (c) Recognition of income and expenses –

   (i) Fee revenue from mortgage servicing and administration is accrued monthly at the time the services are rendered.

   (ii) Mortgage and term deposit fees are reflected in operations when received or paid.

   (iii) Gains and losses on sales of mortgages to investors are recorded on the settlement of the transaction.

   (d) Real estate –

   Properties held for resale are carried at the lower of cost and estimated net realizable value and include properties acquired in settlement of conventional loans. Carrying cost incurred are capitalized.

   Income on properties sold is recorded after all material conditions have been fulfilled and at least 15% of the sale price has been received in cash.

   Property is classified under income producing properties when it is management's intention to hold that property with a view to producing rental income.

   No depreciation is taken on properties held for resale. Rental properties, excluding land, are depreciated by the straight-line method at rates varying from 3% to 10% per year.

   (e) Premises, equipment and leasehold improvements –

   Premises, equipment and leasehold improvements are carried at cost less accumulated depreciation.

   Depreciation is based as follows: –

   Straight line method
   - Buildings – 5%
   - Leasehold improvements – over the term of the lease

   Declining balance method
   - Equipment – 10% to 20%

   (f) Goodwill –

   Goodwill arising on acquisition of subsidiaries is being amortized over 40 years.

   (g) Foreign currencies –

   All amounts in foreign currency have been translated into Canadian dollars at the rates of exchange prevailing at the end of the year. Adjustments arising on translation of currencies are included in the consolidated statement of earnings.

3. Acquisition of Patrician Land Corp. Ltd.:

   On February 15, 1980 the Company acquired from its controlling shareholder, all of the issued and outstanding shares of a real estate company, Patrician Land Corp. Ltd. (Patrician) for an aggregate purchase price of $10,757,000. The purchase price has been satisfied by the issue of 1,654,923 common shares from treasury stock and is subject to adjustment under certain conditions.

   Prior to the acquisition of Patrician, the Company acquired certain lands from Patrician for a cash consideration of $7,500,000 based on an independent appraisal.

   Patrician is an Alberta based real estate and development company having operations in Alberta and Ontario. Patrician is engaged principally in the purchase and sale of real estate and the acquisition and development of income producing properties.

   The acquisition of Patrician has been accounted for by the purchase method and the results of its operations have been included in the consolidated financial statements from February 15, 1980, the effective date of acquisition.

   The acquisition is summarized below:

Assets:	
Properties held for resale –	
Revenue producing	$ 55,195,000
Unimproved land	29,833,000
Income producing properties	14,272,000
Mortgages, agreements for sale and other receivables	37,729,000
Other assets	792,000
	$137,821,000

Liabilities:	
Mortgages on:	
Properties held for resale –	
Revenue producing	$43,729,000
Unimproved land	19,337,000
Income producing properties	9,526,000
Liabilities on mortgages receivable	29,630,000
Bank indebtedness	3,242,000
Other liabilities	5,495,000
Deferred income taxes	16,923,000
	127,882,000
Net assets	9,939,000
Excess of purchase price over net tangible assets acquired	818,000
Capital stock issued 1,654,923 shares at assigned value of $6.50 each	$ 10,757,000

Notes:

(i) Prior to the acquisition by the Company, Patrician wrote up its real estate assets to approximate market value based on recent independent appraisals and agreements to purchase. The write-ups aggregated $23,335,000 subject to potential income tax of $9,383,000.

(ii) The amount of $16,923,000 shown as deferred income taxes in the above statement of assets and liabilities of Patrician includes a provision of $9,383,000 for income taxes which would arise if the real estate assets carried therein on the basis of their appraised values are sold at such values. Under the existing tax laws, the liability for such taxes would be related to the periods in which the proceeds would be realized. Accordingly, depending upon the terms of the agreements governing the sales of the properties, the payment of a substantial portion of the provision mentioned above may be deferred to future years.

4. Investment securities:

	1980	1979
Cost:		
Bonds:		
Government of Canada and Provincials	$16,345,000	$17,625,000
Municipal	334,000	339,000
Corporate	1,262,000	2,155,000
	17,941,000	20,119,000
Stocks	8,714,000	8,854,000
	$26,655,000	$28,973,000
Market values:		
Bonds	$13,581,000	$16,609,000
Stocks	7,030,000	8,282,000
	$20,611,000	$24,891,000

5. Non-income producing assets:

Mortgages include approximately $19,500,000 of non-income producing assets as at December 31, 1980 on which, in the opinion of management, adequate provision for possible losses has been made.

6. Assets held for guaranteed trust account:

As at December 31, 1980 deposits held for the guaranteed trust account amounted to $529,984,000 (1979 – $487,821,000). Included in total assets are cash, marketable securities, mortgages and other receivables held to secure these deposits.

7. Real estate:

	1980	1979
Properties held for resale –		
Revenue producing	$ 63,682,000	$1,241,000
Unimproved land	61,852,000	1,717,000
	125,534,000	2,958,000
Income producing properties	32,405,000	6,571,000
Less accumulated depreciation of $165,000 (1979 – $131,000)		
	$157,939,000	$9,529,000

8. Premises, equipment and leasehold improvements is net of accumulated depreciation of $700,000 (1979 – $585,000).

9. Mortgages payable:

	1980	1979
Mortgages on –		
Properties held for resale –		
Revenue producing	$ 49,017,000	$ –
Unimproved land	40,070,000	1,062,000
Income producing properties	24,261,000	6,175,000
Mortgages receivable and agreements for sale	18,052,000	–
	$131,400,000	$7,237,000

The above mortgages currently bear interest at a weighted average rate of 12.0% (1979 – 10.9%).

Scheduled principal instalments payable on the mortgages within the next five years –

1981 – $37,668,000
1982 – $15,774,000
1983 – $12,541,000
1984 – $17,255,000
1985 – $ 5,493,000

10. Subordinated notes:

	1980	1979
Bank prime plus 1-1/4%, due April 1980, payable to a shareholder	$ –	$1,000,000
Bank prime plus 1-1/2%, due September 1980	–	1,500,000
11-3/4% Series A, due April 1983	1,000,000	1,000,000
	$1,000,000	$3,500,000

11. Taxes:

Deferred income taxes relate principally to mortgage reserves claimed for tax purposes which are in excess of provisions recorded in the accounts.

The Company has losses carried forward for tax purposes approximating $10,100,000 which are available to reduce future years' taxable income. Such losses will expire through 1985.

12. Capital stock:

On December 31, 1980 with the amalgamation of The Fidelity Trust Company and Fort Garry Trust Company, the Company issued: –

(a) one and one quarter 9% Cumulative Redeemable First Preference Shares Series A of the Company for each $2.25 Cumulative Redeemable First Preference Share Series B of Fort Garry Trust Company.

(b) one 9% Cumulative Redeemable First Preference Share Series A of the Company for each 8.6% Cumulative Redeemable Preference Share Series A of The Fidelity Trust Company.

(c) one common share of the Company for each common share of Fort Garry Trust Company not held by The Fidelity Trust Company. The common shares held by The Fidelity Trust Company were cancelled without repayment of capital.

The 9% Cumulative Redeemable First Preference Share Series A are redeemable at the Company's option from August 1, 1982 at a premium of $1.25 per share, declining by $0.25 per share each year thereafter up to and until July 31, 1987 at which time the redemption price would be par.

In addition, the Company is obligated to make all reasonable efforts to purchase for cancellation on the open market, commencing on January 1, 1981, 1% each quarter, of the outstanding preference shares at a price not exceeding the par value plus cost of purchase. The purchase obligation is non-cumulative. No shares shall be redeemed or purchased for cancellation unless the directors are satisfied that the redemption of capital is consistent with the capital needs of the Company, complies with applicable laws and provisions relating to the preference shares and the prior consent of the Superintendent of Insurance (Canada) has been obtained.

During the year the Company issued 1,654,923 common shares at an assigned value of $6.50 each on the acquisition of Patrician Land Corp. Ltd. (See note 3).

13. Gain (loss) on investments and real estate:

	1980	1979
Net real estate gains	$7,660,000	$ –
Net mortgage losses and provisions	(3,504,000)	(1,332,000)
Net gain on sale of securities	129,000	24,000
	$4,285,000	$(1,308,000)

14. Loss per common share:

Loss per common share has been computed using the monthly weighted average number of shares outstanding. For purposes of computing loss per common share an addition of $500,000 ($429,000 – 1979) was made for dividends paid and accrued on the 8.6% preference shares with respect to the current year.

15. Related party transactions:

The Company during the year has advanced funds totalling $24,263,000 to Patrician Land Corp. Ltd. (Patrician) to refinance and expand its real estate operations. Interest at approximately 14½% has been charged on these funds. All amounts have been eliminated on consolidation. See also note 3 for details on the acquisition of Patrician and certain lands by the Company from its controlling shareholder.

16. Commitments and contingencies:

(a) Patrician Land Corp. Ltd., as general partner in a real estate syndicated partnership, has agreed to fund by way of a loan the possible cash flow deficiencies arising from the operation of an apartment complex through 1983. This loan is limited to $1,000,000.

(b) The Company has, in the normal course of business, sold certain packages of mortgages to investors, which include investors' options for resale back to the Company at stated prices. The options are exercisable at various dates through 1983.

The principal mortgage balances at December 31, 1980 with investors' options amounted to $30,735,000.

(c) At December 31, 1980 outstanding commitments for mortgage advances approximated $7,102,000.

(d) The Company rents premises under long-term leases which expire at various dates to 1987. In addition, the Company has contracted to lease some equipment from various suppliers. These leases expire at various times to 1984. The current annual rental under the property and equipment leases for 1981 is $461,000.

17. Mortgages under administration: 1980 – $549,005,000, 1979 – $597,074,000

18. Reclassification of 1979 figures: Certain of the 1979 figures presented for comparison have been reclassified to conform with the presentation adopted for 1980.

Auditors' Report

Price Waterhouse & Co.
CHARTERED ACCOUNTANTS

To the Shareholders of
The Fidelity Trust Company:

We have examined the consolidated balance sheet of The Fidelity Trust Company as at December 31, 1980 and the consolidated statements of earnings, retained earnings and changes in financial position for the year then ended and have obtained all the information and explanations we have required. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, and according to the best of our information and the explanations given to us and as shown by the books of the Company, these consolidated financial statements present fairly the financial position of the Company as at December 31, 1980 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Price Waterhouse & Co.
Chartered Accountants

February 25, 1981
Toronto, Ontario

FIDELITY TRUST
since 1909

Fidelity Trust Branches

Halifax
1649 Hollis St. (902) 422-7476

Montreal
515 St. Catherines St. W.,
Ste. 209 (514) 842-4616

Toronto
350 Bay St. (416) 362-7211

Winnipeg
283 Portage Ave. (204) 944-7211
1350 Main St. (204) 586-9687
417 Academy Rd. (204) 474-2459
1861 Portage Ave. (204) 888-4861
600 Selkirk Ave. (204) 589-7311
1181 Pembina (204) 452-3533

Brandon
921 Rosser Ave. (204) 727-2481

Regina
1821 Rose St. (306) 525-0518

Saskatoon
171 Second Ave. S. (306) 665-6100

Calgary
700 Eighth Ave. S.W. (403) 265-9280

Edmonton
10506 Jasper Ave. (403) 423-3474

Vancouver
1101 West Georgia St. (604) 685-8521

Patrician Land Corp. Ltd.

10150 – 100 Street
Edmonton, Alberta
T5J 0P6
(403) 429-1741

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